

**REPORT OF THE AUDIT OF THE
LARUE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2014**



**ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE (502) 564-5841
FACSIMILE (502) 564-2912**

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
LARUE COUNTY FISCAL COURT**

June 30, 2014

The Auditor of Public Accounts has completed the audit of the LaRue County Fiscal Court for fiscal year ended June 30, 2014.

We have issued an unmodified opinion based on our audit on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of LaRue County, Kentucky.

Financial Condition:

The LaRue County Fiscal Court had total receipts of \$6,605,350 and disbursements of \$7,001,162 in fiscal year 2014. This resulted in a total ending fund balance of \$2,974,818, which is a decrease of \$395,812 from the prior year.

Report Comments:

- 2014-001 The Fiscal Court Should Improve Control Over Disbursements
- 2014-002 The Fiscal Court Has A Lack Of Segregation Of Duties Over Cash And Receipts
- 2014-003 The Jailer Should Prepare An Accurate Financial Statement And Maintain Required Records For Jail Commissary Fund
- 2014-004 The Jail Lacks Adequate Segregation Of Duties

Deposits:

The fiscal court's deposits as of December 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$480,567

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Steven L. Beshear, Governor
Lori H. Flanery, Secretary
Finance and Administration Cabinet
Honorable Tommy Turner, LaRue County Judge/Executive
Members of the LaRue County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of LaRue County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in more fully in Note 1, the financial statement is prepared by LaRue County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of LaRue County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of LaRue County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of LaRue County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The budgetary comparison schedules and capital asset schedule have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule are fairly stated in all material respects in relation to the basic financial statement.

To the People of Kentucky
Honorable Steven L. Beshear, Governor
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Members of the LaRue County Fiscal Court

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated April 21, 2015, on our consideration of LaRue County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discuss the following report comments:

- 2014-001 The Fiscal Court Should Improve Control Over Disbursements
- 2014-002 The Fiscal Court Has A Lack Of Segregation Of Duties Over Cash And Receipts
- 2014-003 The Jailer Should Prepare An Accurate Financial Statement And Maintain Required Records For Jail Commissary Fund
- 2014-004 The Jail Lacks Adequate Segregation Of Duties

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

April 21, 2015

LARUE COUNTY OFFICIALS

For The Year Ended June 30, 2014

Fiscal Court Members:

Tommy Turner	County Judge/Executive
Ricky Whitlock	Magistrate
William L. Miller	Magistrate
Gary T. Stewart	Magistrate
Ronald Dale Nunn	Magistrate

Other Elected Officials:

Dale Morris	County Attorney
Johnny Cottrill	Jailer
Linda Carter	County Clerk
Larry Bell	Circuit Court Clerk
Merle Edlin	Sheriff
James Q. Shaw	Property Valuation Administrator
Todd Skaggs	Coroner

Appointed Personnel:

Lauralene Reed	County Treasurer
Renee Strock	Administrative Assistant
Clyde Veirs	Road Supervisor
Chris Jackson	911 Administrator
Charles Rick Benningfield	Jail Chief Deputy

LARUE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

LARUE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS

For The Year Ended June 30, 2014

	Budgeted Funds		
	General Fund	Road Fund	Jail Fund
RECEIPTS			
Taxes	\$ 1,587,900	\$	\$
In Lieu Tax Payments	4,258		
Excess Fees	137,254		
Licenses and Permits	143,973		
Intergovernmental	329,108	1,977,250	1,338,055
Charges for Services	711,633		32,352
Miscellaneous	58,174	17,921	59,112
Interest	13,178	4,873	96
Total Receipts	<u>2,985,478</u>	<u>2,000,044</u>	<u>1,429,615</u>
DISBURSEMENTS			
General Government	482,299		
Protection to Persons and Property	819,682		1,435,715
General Health and Sanitation	186,309		
Social Services	20,462		
Recreation and Culture	145,372		
Roads		2,185,310	
Debt Service			132,375
Administration	794,165	223,944	383,719
Total Disbursements	<u>2,448,289</u>	<u>2,409,254</u>	<u>1,951,809</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>537,189</u>	<u>(409,210)</u>	<u>(522,194)</u>
Other Adjustments to Cash (Uses)			
Transfers From Other Funds			505,000
Transfers To Other Funds	(505,000)		
Total Other Adjustments to Cash (Uses)	<u>(505,000)</u>		<u>505,000</u>
Net Change in Fund Balance	32,189	(409,210)	(17,194)
Fund Balance - Beginning (Restated)	2,252,287	655,166	435,737
Fund Balance - Ending	<u>\$ 2,284,476</u>	<u>\$ 245,956</u>	<u>\$ 418,543</u>
Composition of Fund Balance			
Bank Balance	\$ 1,254,678	\$ 246,560	\$ 459,313
Less: Outstanding Checks	(15,232)	(604)	(40,770)
Certificate of Deposits	1,045,030		
Fund Balance - Ending	<u>\$ 2,284,476</u>	<u>\$ 245,956</u>	<u>\$ 418,543</u>

The accompanying notes are an integral part of the financial statement.

LARUE COUNTY
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES
IN FUND BALANCES - REGULATORY BASIS
For The Year Ended June 30, 2014
(Continued)

<u>Unbudgeted Fund</u>		
<u>Jail</u>		
<u>Commissary</u>		<u>Total</u>
<u>Fund</u>		<u>Funds</u>
\$		\$ 1,587,900
		4,258
		137,254
		143,973
7,215		3,651,628
170,515		914,500
12,446		147,653
37		18,184
<u>190,213</u>		<u>6,605,350</u>
		482,299
		2,255,397
		186,309
		20,462
191,810		337,182
		2,185,310
		132,375
		<u>1,401,828</u>
<u>191,810</u>		<u>7,001,162</u>
<u>(1,597)</u>		<u>(395,812)</u>
		505,000
		<u>(505,000)</u>
(1,597)		(395,812)
27,440		3,370,630
<u>\$ 25,843</u>		<u>\$ 2,974,818</u>
\$ 28,196	\$ 1,988,747	
(2,353)	(58,959)	
	<u>1,045,030</u>	
<u>\$ 25,843</u>	<u>\$ 2,974,818</u>	

The accompanying notes are an integral part of the financial statement.

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TO THE FINANCIAL STATEMENT**

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LARUE COUNTY
NOTES TO FINANCIAL STATEMENT

June 30, 2014

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statement of LaRue County includes all budgeted and unbudgeted funds under the control of the LaRue County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

B. Basis of Accounting

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

C. Basis of Presentation

Budgeted Funds

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of receipts for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation (Continued)

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Unbudgeted Funds

The fiscal court reports the following unbudgeted funds:

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

D. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of these funds.

E. LaRue County Elected Officials

Kentucky law provides for election of the officials below from the geographic area constituting LaRue County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of LaRue County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

F. Deposits and Investments

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

G. Long-term Obligations

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

Note 2. Deposits

The Fiscal Court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1) (d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 31, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$480,567

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 3. Transfers

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Total Transfers In
Jail Fund	\$ 505,000	\$ 505,000
Total Transfers Out	\$ 505,000	\$ 505,000

Reason for transfers:

To move resources from the General Fund for budgetary purposes, to the fund that will expend them.

Note 4. Long-term Debt

A. Financing Obligation - Golf Course Renovations

On October 1, 2007, the LaRue County Fiscal Court entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) in the amount of \$1,072,000 for the renovation of the golf course of the LaRue County Golf Association, Inc. (Golf Association). Principal is payable annually on January 20 and interest is payable monthly on the 20th of each month. Interest rate is variable. The maturity date of the lease is January 20, 2034. The Golf Association makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2014, total debt service of \$72,032 was due. The Golf Association paid debt service of \$59,142 on behalf of the LaRue County Fiscal Court and the Fiscal Court paid the remaining \$12,890. As of June 30, 2014, the principal balance was \$917,000. The Golf Association has agreed to make the payments due below on behalf of the Fiscal Court. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 25,000	\$ 45,788
2016	25,000	44,652
2017	35,000	43,102
2018	35,000	41,360
2019	35,000	39,616
2020-2024	195,000	170,221
2025-2029	250,000	116,029
2030-2034	317,000	45,453
Totals	\$ 917,000	\$ 546,221

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long-term Debt (Continued)

B. Financing Obligation - Refunding Lease and Courthouse Improvements

On March 1, 2011, the LaRue County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purpose of refunding the General Obligation Improvement Bonds, Series of 1999 and additional courthouse facility improvements. The original principal was \$1,545,000 at 3.75% interest for a period of 20 years, with interest and principal paid monthly. Total principal outstanding June 30, 2014 totaled \$1,385,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 60,000	\$ 72,719
2016	60,000	70,469
2017	60,000	68,068
2018	65,000	65,519
2019	70,000	62,669
2020-2024	390,000	260,188
2025-2029	502,500	143,956
2030-2031	177,500	14,628
Totals	<u>\$ 1,385,000</u>	<u>\$ 758,216</u>

C. Financing Obligation - Sheriff Police Cruisers

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of three vehicles for the Sheriff's Department. The original principal balance was \$89,060 at 2.73% interest for a period of six years, with interest and principal paid monthly. The LaRue County Sheriff makes lease payments directly to the trustee for principal and interest of the obligation. During fiscal year 2014, total debt service of \$16,391 was due. The LaRue County Sheriff paid debt service of \$16,391 on behalf of the Fiscal Court. Total principal outstanding June 30, 2014 totaled \$56,235. The LaRue County Sheriff has agreed to make the payments due below on behalf of the Fiscal Court. Future principal and interest requirements are:

Fiscal Year Ended June 30	Principal	Interest
2015	\$ 14,784	\$ 1,549
2016	15,192	1,081
2017	15,612	599
2018	10,647	125
Totals	<u>\$ 56,235</u>	<u>\$ 3,354</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 4. Long Term Debt (Continued)

D. Financing Obligation - Emergency Medical Services Vehicles

On January 26, 2009, the LaRue County Fiscal Court entered into an agreement with the Association of Counties Leasing Trust (KACoLT) to purchase vehicles for the Emergency Management Services (EMS). The original principal balance was \$38,958 at various interest rates for a period of five years, with interest and principal paid monthly. The balance was paid off on November 1, 2013.

E. Financing Obligation – Pickup Truck

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of a pickup truck for the Road Department. The original principal balance was \$30,857 at various interest rates for a period of five years, with interest and principal paid monthly. The balance was paid off on November 1, 2013.

F. Financing Obligation – E-911 Consoles

On September 30, 2009, the LaRue County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for the purchase of E-911 consoles for the Emergency Management Services (EMS). The original principal balance was \$49,480 at various interest rates for a period of five years, with interest and principal paid monthly. The balance was paid off on November 1, 2013.

G. Changes In Long-term Debt

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Financing Obligations	\$ 2,482,511	\$	\$ 124,276	\$ 2,358,235	\$ 99,784
Total Long-term Debt	<u>\$ 2,482,511</u>	<u>\$ 0</u>	<u>\$ 124,276</u>	<u>\$ 2,358,235</u>	<u>\$ 99,784</u>

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 35.70 percent.

The county's contribution for FY 2012 was \$467,965 FY 2013 was \$460,774 and FY 2014 was \$515,813.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 5. Employee Retirement System (Continued)

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 6. Deferred Compensation

On February 24, 2000 the Larue County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permits all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing The Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in The Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

Note 7. Insurance

For the fiscal year ended June 30, 2014, Larue County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

LARUE COUNTY
NOTES TO FINANCIAL STATEMENT
June 30, 2014
(Continued)

Note 8. Health Reimbursement Account

The Larue County Fiscal Court established a health reimbursement account on October 31, 2013 to provide employees an additional health benefit. Larue County Fiscal Court is the administrator of the plan. The plan provides a reimbursement up to \$35 to pay for each qualified prescription drug copays to each eligible employee. The County Treasurer reimburses employees out of the health insurance budget appropriation accounts through the General, Road and Jail Funds. Employees are required to submit pharmacy receipts along with a claim form with a signature of a pharmacy representative to the County Treasurer for reimbursement.

Note 9. Prior Period Adjustments

The beginning balance for the general fund was reduced by \$35,065 to remove the prior year ending balance for the county's payroll tax withholding account.

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LARUE COUNTY
BUDGRTARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
RECEIPTS				
Taxes	\$ 1,520,175	\$ 1,520,175	\$ 1,587,900	\$ 67,725
In Lieu Tax Payments	3,500	3,500	4,258	758
Excess Fees	142,500	142,500	137,254	(5,246)
Licenses and Permits	100,000	100,000	143,973	43,973
Intergovernmental	433,500	433,500	329,108	(104,392)
Charges for Services	670,000	670,000	711,633	41,633
Miscellaneous	12,400	12,400	58,174	45,774
Interest	25,000	25,000	13,178	(11,822)
Total Receipts	<u>2,907,075</u>	<u>2,907,075</u>	<u>2,985,478</u>	<u>78,403</u>
DISBURSEMENTS				
General Government	681,400	688,495	482,299	206,196
Protection to Persons and Property	893,550	968,068	819,682	148,386
General Health and Sanitation	241,750	252,925	186,309	66,616
Social Services	23,000	25,561	20,462	5,099
Recreation and Culture	120,900	176,976	145,372	31,604
Administration	1,097,900	891,821	794,165	97,656
Total Disbursements	<u>3,058,500</u>	<u>3,003,846</u>	<u>2,448,289</u>	<u>555,557</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(151,425)</u>	<u>(96,771)</u>	<u>537,189</u>	<u>633,960</u>
Other Adjustments to Cash (Uses)				
Transfers From Other Funds				
Transfers To Other Funds	<u>(187,650)</u>	<u>(187,650)</u>	<u>(505,000)</u>	<u>(317,350)</u>
Total Other Adjustments to Cash (Uses)	<u>(187,650)</u>	<u>(187,650)</u>	<u>(505,000)</u>	<u>(317,350)</u>
Net Change in Fund Balance	<u>(339,075)</u>	<u>(284,421)</u>	<u>32,189</u>	<u>316,610</u>
Fund Balance Beginning	<u>339,075</u>	<u>339,075</u>	<u>2,252,287</u>	<u>1,913,212</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 54,654</u>	<u>\$ 2,284,476</u>	<u>\$ 2,229,822</u>

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

ROAD FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 2,072,651	\$ 2,072,651	\$ 1,977,250	\$ (95,401)
Charges for Services	1,500	1,500		(1,500)
Miscellaneous	14,000	14,000	17,921	3,921
Interest	6,000	6,000	4,873	(1,127)
Total Receipts	<u>2,094,151</u>	<u>2,094,151</u>	<u>2,000,044</u>	<u>(94,107)</u>
DISBURSEMENTS				
Roads	2,434,851	2,464,054	2,185,310	278,744
Administration	259,300	230,097	223,944	6,153
Total Disbursements	<u>2,694,151</u>	<u>2,694,151</u>	<u>2,409,254</u>	<u>284,897</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>(600,000)</u>	<u>(600,000)</u>	<u>(409,210)</u>	<u>190,790</u>
Net Change in Fund Balance	(600,000)	(600,000)	(409,210)	190,790
Fund Balance Beginning	<u>600,000</u>	<u>600,000</u>	<u>655,166</u>	<u>55,166</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 245,956</u>	<u>\$ 245,956</u>

LARUE COUNTY
BUDGETARY COMPARISON SCHEDULES
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014
(Continued)

	JAIL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive Negative
	Original	Final		
RECEIPTS				
Intergovernmental	\$ 1,614,700	\$ 1,614,700	\$ 1,338,055	\$ (276,645)
Charges for Services	45,250	45,250	32,352	(12,898)
Miscellaneous	47,000	47,000	59,112	12,112
Interest	500	500	96	(404)
Total Receipts	1,707,450	1,707,450	1,429,615	(277,835)
DISBURSEMENTS				
Protection to Persons and Property	1,423,700	1,459,619	1,435,715	23,904
Debt Service	133,500	135,500	132,375	3,125
Administration	372,900	389,635	383,719	5,916
Total Disbursements	1,930,100	1,984,754	1,951,809	32,945
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)				
	(222,650)	(277,304)	(522,194)	(244,890)
Other Adjustments to Cash (Uses)				
Transfers From Other Funds	187,650	187,650	505,000	317,350
Total Other Adjustments to Cash (Uses)	187,650	187,650	505,000	317,350
Net Change in Fund Balance				
	(35,000)	(89,654)	(17,194)	72,460
Fund Balance Beginning	35,000	35,000	435,737	400,737
Fund Balance - Ending				
	\$ 0	\$ (54,654)	\$ 418,543	\$ 473,197

LARUE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - BUDGETARY COMPARISON SCHEDULES

June 30, 2014

Note 1. Budgetary Information

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

LARUE COUNTY
SUPPLEMENTARY SCHEDULE
Supplementary Information - Regulatory Basis
For The Year Ended June 30, 2014

LARUE COUNTY
SCHEDULE OF CAPITAL ASSETS
Supplementary Information - Regulatory Basis

For The Year Ended June 30, 2014

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
Land	\$ 1,107,499	\$	\$	\$ 1,107,499
Buildings and Land improvements	8,617,634	55,697		8,673,331
Other Equipment	1,439,502	59,991		1,499,493
Vehicles and Equipment	1,355,311	2,500		1,357,811
Infrastructure	6,708,026	1,160,412		7,868,438
 Total Capital Assets	 <u>\$ 19,227,972</u>	 <u>\$ 1,278,600</u>	 <u>\$ 0</u>	 <u>\$20,506,572</u>

LARUE COUNTY
NOTES TO REGULATORY SUPPLEMENTARY
INFORMATION - SCHEDULE OF CAPITAL ASSETS

June 30, 2014

Note 1. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-15
Infrastructure	\$ 20,000	10-50

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Tommy Turner, Larue County Judge/Executive
Members of the LaRue County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the LaRue County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated April 21, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the LaRue County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the LaRue County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the LaRue County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be material weaknesses and another deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying comments and recommendation as items 2014-002, 2014-003, and 2014-004 to be material weaknesses



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a significant deficiency.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the LaRue County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations as items 2014-001 and 2014-003.

County Judge's and Jailer's Responses to Findings

The LaRue County Judge's and Jailer's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The County Judge's and Jailer's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

April 21, 2015

**LARUE COUNTY
COMMENTS AND RECOMMENDATIONS**

For The Year Ended June 30, 2014

LARUE COUNTY
COMMENTS AND RECOMMENDATIONS

Fiscal Year Ended June 30, 2014

FINANCIAL STATEMENT FINDINGS:

2014-001 The Fiscal Court Should Improve Controls Over Disbursements

As a result of our audit, we noted Fiscal Court had deficiencies in internal controls over disbursements. During our testing of disbursements, the following deficiencies were noted:

- Fiscal Court approved claims and made appropriations in excess of budgeted appropriation amounts two hundred ninety-seven (297) times during the fiscal year without requesting budget transfers prior to overspending. Two hundred ninety-seven claims (297) were approved and paid even though the budget line item had a negative free balance when payment was approved and made. Budget transfers were not obtained until two weeks to seven months later.
- Two operating disbursements tested were not approved prior to payment.
- Payroll related items were not included in the annual budget standing order and not approved for payment by Fiscal Court as they occurred.

These deficiencies in internal controls over disbursements were allowed to occur because the Fiscal Court's controls and oversight over disbursements did not operate properly. Proper internal controls over disbursements are important to ensure the budget is not overspent; disbursements are approved by Fiscal Court prior to payment.

KRS 68.300 states, "Any appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void..." and KRS 68.275(1) states, "claims against the county that are within the amount of line items of the county budget and arise pursuant to contracts duly authorized by the fiscal court shall be paid by the County Judge/Executive by a warrant drawn on the county and co-signed by the County Treasurer." In addition, KRS 68.275(2) requires the County Judge/Executive to present all claims to the Fiscal Court for review prior to payment unless the expenses are included on a standing order adopted by the Fiscal Court. Good internal controls also dictate that Fiscal Court approve budget transfers prior to overspending budget line items, approve disbursements prior to payment. We recommend budget transfers be obtained prior to overspending budget line items, all disbursements be presented to Fiscal Court prior to payment unless a standing order has been obtained.

County Judge/Executive's Response: This is, for the most part, a hold over comment from the last audit. Auditor Edelen fails to mention that when it was recommended last year to change our method of budget transfers, it was done immediately and was implemented in April 2014. However, since the implementation was during the fiscal year, we knew this comment would be carried forward to the 2013-2014 (current) Audit even though it was changed a year ago. The procedures we followed up until April 2014 were the same procedures we had used for many, many years, with each being audited by the Auditor with no comment or recommendation to do them differently.

The two (2) operating expenditures tested that had not been approved prior to payment are not operating expenditures. Auditor Edelen failed to recognize these were delinquent tax payments that were made to the County Clerk. By statute, the Clerk forwards the payment to the Fiscal Court and we in turn make payment out to the proper district. These are not operating expenditures and are pass through funds that are handed to county government and we then hand them to the proper agency. Statute requires this. The two expenditures that received comments were a \$39 payment to the New Hope Fire Department and a \$130 payment to the LaRue County Fire Department.

LARUE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-001 The Fiscal Court Should Improve Controls Over Disbursements

County Judge/Executive's Response (Continued): Regarding the Payroll items not included in the standing order list, these involved employee benefits such as Social Security, Retirement and Health Insurance. These items are required by state and federal law. I cannot reason as to why Auditor Edelen feels they are necessary to list in a standing order as they are required by state and federal law which supersedes any standing order of the Fiscal Court. This question arose last year and we challenged the comment. We were instructed by Auditor Edelen to consult with the Department for Local Government (DLG) regarding the proper method for standing orders of this type. The Department stated our method was correct. We then received word from the Auditor that DLG had instructed us improperly. These type actions certainly leave counties in a quandary as to what they should do and results in a no win situation, allowing the Auditor to write a comment in either case. In other words, the Auditor can't tell us how to do a procedure, to find out we are told by the Auditor we must consult the DLG. DLG tells us we are doing it correctly but we are then told by the Auditor the Dept. has instructed incorrectly. This is no win situation and the result is an audit comment written either way.

Auditors' response: We appreciate the County's willingness to try and correct the budget problem; however, we found many instances still in May 2014 and June 2014 where disbursements were made when there was no budget available. The transfers to cover the amounts were not made until the end of June 2014. So the process the County has attempted to put in place needs to be looked at again.

The County Judge is correct when he states the two disbursements noted were payments made to taxing districts. However, that does not prevent the county from having to follow KRS 68.275(2) which requires the County Judge/Executive to present ALL claims to the Fiscal Court for review prior to payment unless the expenses are included on a standing order adopted by the Fiscal Court.

Although many payroll related disbursements are required by state and federal law, this still does not preclude the county from following KRS 68.275(2) and KRS 68.275(3). Again, KRS 68.275(2) requires the County Judge/Executive to present ALL claims to the Fiscal Court for review prior to payment unless the expenses are included on a standing order adopted by the Fiscal Court. KRS 68.275(3) states, "The fiscal court may adopt an order to pre-approve the payment of monthly payroll and utility expenses. No other expenses shall be pre-approved pursuant to this subsection without the written consent of the State Local Finance Officer. It is understood that payroll items are recurring, necessary items. Hence, the creation of the standing order.

2014-002 The Fiscal Court Has A Lack Of Adequate Segregation Of Duties Over Cash And Receipts

A lack of segregation of duties exists over cash and receipts. The County Treasurer receives the mail, prepares and deposits the receipts, prepares bank reconciliations, and prepares financial reports. Adequate segregation of duties would prevent the same person from having a significant role in the receiving, recording, and reporting of receipts. The Fiscal Court should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the Fiscal Court separate the duties in preparing and depositing receipts, recording transactions, reconciling bank accounts, and preparing financial reports. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

LARUE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-002 The Fiscal Court Has A Lack Of Adequate Segregation Of Duties Over Cash And Receipts
 (Continued)

County Judge/Executive's Response: This comment is contained in nearly every audit performed on counties, cities, special districts and nonprofit organizations. The only remedy is to have more people involved, which in turn means more employees. We manage as efficiently as possible with as small a staff as possible in an attempt to save the citizens tax dollars.

2014-003 The Jailer Should Prepare An Accurate Financial Statement And Maintain Required Records For
 The Jail Commissary Fund

During our review of the Jail Commissary Fund, we noted the following deficiencies:

- The yearly financial statement of the Jail Commissary Fund was not provided to the County Treasurer at fiscal year end. The Jailer did prepare a Cash Flow Summary for the auditor which did not accurately reflect the Commissary's records. Receipts were overstated by \$35,654 and disbursements were overstated by \$43,754.
- The yearly financial statement of the Jail Commissary Fund did not agree to the daily checkout sheets and checks written.
- Monthly reconciliations were not prepared for throughout the fiscal year.

These deficiencies in Jail Commissary Fund were allowed to occur because the Jailer's controls and oversight over reporting did not operate properly. Failing to maintain accurate records can result in inaccurate information as to funds available for use for benefit of the inmates. Good internal controls dictate that adequate reporting be maintained for all receipts and disbursements.

Kentucky Revised Statute (KRS) 441.135 requires the Jailer to maintain records of receipts and disbursements of the Jail Commissary Fund and to prepare a report annually for the county treasurer. In addition, KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Instructional Guide for County Budget Preparation and State Local Finance Officer Policy Manual provides guidelines to maintaining records for the Jail Commissary Fund. In accordance with these guidelines, the Jailer should maintain the following records:

In accordance with these guidelines, the Jailer should maintain the following records:

- Daily checkout sheets should include a category for all funds collected to be posted to the Jail Commissary Receipts Journal.
- Jail Commissary Receipts Journal should agree to the daily checkout sheets and include a category for all funds collected.
- Jail Commissary Disbursements Journal should include every check written. Each check written should be posted to the proper category.
- Jail Commissary Summary and Reconciliation can be used as a monthly cash reconciliation and as the year-end report to be submitted to the County Treasurer. The year to date summary section of this report will provide a cash balance at anytime during the fiscal year. Information for this section is obtained from totaled categories from the receipt and disbursement journals. A monthly cash balance shall be maintained. The Reconciliation section of this report reconciles the bank balance to the cash balance.

LARUE COUNTY
COMMENTS AND RECOMMENDATIONS
Fiscal Year Ended June 30, 2014
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2014-003 The Jailer Should Prepare An Accurate Financial Statement And Maintain Required Records For
The Jail Commissary Fund (Continued)

We recommend the Jailer comply with the applicable statutes by maintaining required records, preparing and submitting an accurate annual Commissary report to the County Treasurer at year-end that includes all receipts and disbursements and reconciles to the receipts ledger and disbursements ledger.

County Judge/Executive's Response: The Fiscal Court does not collect, manage or control the Jail Commissary Fund. This is a responsibility of the Jailer and his response should be included.

Jailer's Response: Agreed.

2014-004 The Jailer Lacks An Adequate Segregation Of Duties

A lack of segregation of duties exists over all Jail Commissary Fund accounting functions. The bookkeeper receives the mail, prepares and deposits the receipts, and writes checks. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The Jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the Jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

County Judge/Executive's Response: The Jailer is responsible for collection and management of funds under his control. However, comment 2014-002 would be appropriate in this situation.

Jailer's Response: Agreed.

